

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Whiteriver Unified School District No. 20

Year Ended June 30, 2006



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

February 1, 2008

Governing Board
Whiteriver Unified School District No. 20
P.O. Box 190
Whiteriver, AZ 85941-0190

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Cronstrom, Osuch & Company, P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Whiteriver Unified School District No. 20 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$33 million it received in fiscal year 2006 to provide this education.

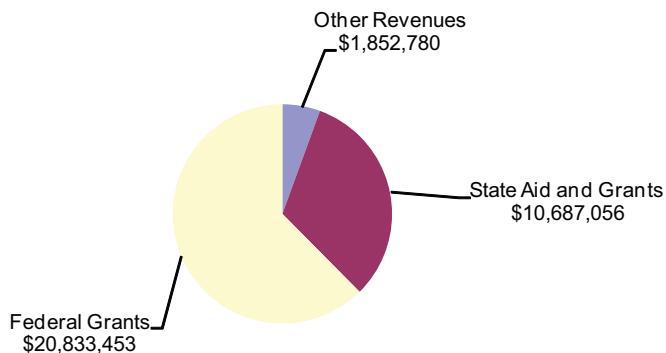
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2006

County: Navajo
Number of Schools: 5

Number of Students: 2,196
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2005-2006* and *Whiteriver Unified School District No. 20 Annual Financial Report for the Fiscal Year Ended June 30, 2006*.

The District should strengthen controls over competitive purchasing and expenditures

The District may not have received the best value for the public monies it spent.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow procurement rules and USFR guidelines, as the District did not analyze the known requirements of an item or a collection of items that, in the aggregate, would result in purchases above \$5,000. As a result, the District did not always obtain at least three oral or written price quotations for purchases requiring them. Also, the District did not always maintain supporting documentation for competitive sealed bids or proposals. In addition, the District did not always retain the Governing Board's written determination that the vendor selected was the sole source for the goods or services required.

Further, it is essential that the District follow proper expenditure processing procedures. However, the District did not always prepare purchase orders prior to ordering goods and services. Also, items were added to a purchase order after the purchase order was approved. Therefore, the corresponding invoice amount exceeded the approved purchase order amount. Finally, the District did not always classify expenditures under the correct account code and did not always maintain credit card receipts to support credit card purchases.

Recommendations

To strengthen controls over competitive purchasing and expenditures, the District should:

- Determine whether to request oral or written price quotations, or issue invitations for bids or requests for proposals by analyzing the known requirements for an item or a collection of items that, in the aggregate, may result in purchases above the applicable thresholds.
- Obtain oral or written price quotations from three or more vendors for purchases requiring them. If three quotations cannot be obtained, the District should document the vendors contacted and their reasons for not providing price quotations.
- Issue invitations for bids (IFB) or requests for proposals (RFP) for purchases over \$33,689, retain a copy of the IFB or RFP, and document that all procurement requirements are met.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

- Retain the Governing Board's written determination of the basis for sole source procurements in the procurement file.
- Prepare and approve purchase orders before goods and services are ordered. If the District wishes to make purchases in excess of approved purchase orders, the existing purchase order should be revised and reapproved, or a new purchase order should be prepared and approved prior to ordering goods or requesting services.
- Classify all expenditures in accordance with the USFR Chart of Accounts.
- Retain documentation to support all credit card transactions, including a clear indication of the employee making the purchase and the specific district purpose served. Credit card receipts and other supporting documentation should be agreed to the applicable billing statement for propriety before payment is made to the credit card company.

Purchase order procedures are outlined on USFR page VI-G-1.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

The District's controls over cash receipts and bank accounts should be improved

The District receives cash from various sources, including food service, student activities, and auxiliary operations, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should maintain effective internal controls to safeguard cash and to ensure that it is promptly and accurately recorded and deposited. However, the District did not have strong controls over its cash receipts and bank accounts. Specifically, the District did not ensure sufficient cash was available in the Food Service Fund, a cash-controlled fund, before approving expenditures. As a result, the fund reported a negative fund balance at year-end. In addition, the District did not issue prenumbered and numerically controlled cash receipt forms for student activities and auxiliary operations cash receipts.

The District reported a negative fund balance of over \$1 million in its Food Service Fund at June 30, 2006.

Recommendations

To improve controls over cash receipts and bank accounts, the District should:

- Ensure sufficient cash exists in cash-controlled funds before authorizing expenditures.

- Prepare, in duplicate, prenumbered and numerically controlled cash receipt forms for all cash received at the District.

The District's financial information should be accurately reported

The District did not report accurate financial information to ADE on its annual financial report.

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. However, the District did not fully accomplish this objective. For example, the District reported numerous actual beginning fund balances, revenues, expenditures, and intrafund transfer amounts on its annual financial report (AFR) that did not agree with its accounting records. In addition, several budgeted expenditures in the Special Projects and Other Special Revenue Funds on the AFR did not agree with the District's expenditure budget.

Recommendations

To help the District report accurate financial information, the District should ensure that budgeted and actual beginning fund balances, revenues, expenditures, and intrafund transfers reported on its AFR agree with its expenditure budget and accounting records. In addition, the District should assign a second employee to verify that the amounts reported on the AFR are accurate and agree with the accounting records before submitting it to ADE.

The District should maintain and report accurate student attendance information

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to provide the minimum instructional time and maintain accurate attendance records to help ensure that the District receives the appropriate amount of state aid. However, the District did not meet these requirements. Specifically, the District did not provide at least the minimum instructional time for preschool students with disabilities, and for 7th and 8th grade students. Also, 40th- and 100th-day membership and absences reported to ADE did not always agree with the District's records. Additionally, the District did not

always maintain documentation to support student absences, withdrawals, and identification information, and the District did not always calculate absences properly.

Further, the District did not always record dates on student entry forms, and withdrawal dates in the District's computerized attendance records did not always agree with the dates recorded on the student withdrawal forms. Finally, the District did not maintain documentation to support that student entries and withdrawals were entered into the District's computerized attendance system within 5 working days.

Recommendations

To help ensure that the District receives the correct amount of state funding, the District should:

- Comply with state requirements for instructional time by providing instructional programs for all grade levels that meet or exceed the requirements in Arizona Revised Statute (A.R.S.).
- Record and report absences in accordance with ADE's *Instructions for Required Reports*.
- Ensure that membership and absences reported to ADE agree with the District's attendance records, and research and resolve any differences promptly.
- Retain documentation, including student identification information, attendance records, membership and absence reports, tardy slips or sign-in and -out logs, and entry and withdrawal forms, to support membership and absences reported to ADE.
- Require all entry and withdrawal forms to be dated and have a second employee verify that the entry and withdrawal dates recorded on the forms agree with the dates in the District's computerized attendance system.
- Record entries and withdrawals in the District's computerized attendance system within 5 working days of the date of entry or withdrawal and indicate the date entered into the system on the entry and withdrawal forms.

A.R.S. §15-901(A)(2) describes the required instructional hours and minutes for each grade level, and A.R.S. §15-341.01 describes the required instructional days for all students.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

The District should maintain accurate payroll records

The District did not ensure that federal and state withholdings were calculated correctly.

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid accurately and that adequate records are maintained to support payroll expenditures. However, the District did not have adequate controls over payroll processing. Specifically, the District did not maintain updated federal and state withholding documentation. As a result, the District did not calculate federal and state withholdings correctly. Further, the District did not withhold state retirement at the proper rate.

Recommendations

To help ensure the District complies with federal and state withholding requirements, the District should ensure that personnel files include current federal and state withholding allowance certification forms W-4 and A-4, respectively, and that amounts are withheld from the employees' pay based on the current forms. Additionally, the District must withhold state retirement at the proper rate from the salaries of all participating employees who work at least 20 hours a week and at least 20 weeks in a fiscal year. Districts should deduct state retirement from employees' salaries and wages before computing federal and state income tax withholding deductions.